

# ICPS newsletter®

## Ukraine's top priorities: researchers and politicians share views

***At a Supervisory Board meeting 1 April 2004 with guest-of-honor US financier George Soros, ICPS specialists presented topical issues in politics, economy, and rule of law, as well as donor participation in economic development and entrenching civil society. We offer our readers the vision of ICPS analysts and selected comments from the distinguished participants at this event***

### Fair political competition improves the quality of policy decisions

The current political situation in Ukraine is seen by some as a series of horrible violations of democratic values and freedoms. The impression is that Ukraine is rolling into the abyss and risks losing its future. Oddly enough, we see the opposite in these events: Ukraine is moving away from the abyss of the post-soviet period and, for the first time, has a real chance to become a country with an evolved democracy.

The political competition that emerged during the "cassette scandal" in 2000-1 has been the main spur to change. But the appearance of competition does not mean that the various sides are ready and able to recognize each other's legitimacy. The Administration controls the media and harasses businesses linked to the opposition. The opposition's tools consist of blocking the work of the legislature, street theater, and the threat of a massive "clean-up" operation if it comes to power. Both approaches are ineffective. The Administration won't listen, and the opposition won't back up its criticisms. This makes it hard for voters to understand and to choose.

Nevertheless, a real competition among independent political forces is raising the quality of the country's politics—both domestic and foreign. A great many important decisions have been adopted as a result of pressure among opposing groups. One impressive example is Constitutional reform: the competition forced the idea of extending presidential and legislative terms to be dropped, as well as the idea of removing direct election of the president, and led to a proportional voting system.

Competition means politicians are more and more in the public eye and makes it harder to pass decisions against the national interest. The various sides get used to publicly criticizing one another. In such circumstances, international assistance should be directed at supporting competition and the rules of fair play and teaching the players to use the methods of public policy efficiently rather than resort to dirty tricks.

### Growth in an unreformed economy does not benefit all

After decline in the 1990s, the Ukrainian economy is taking off. Among the main growth factors are the population's adaptation to business and market conditions, better prices for Ukrainian exports on global markets, active privatization, financial stability, and growing prosperity among consumers.

Economic successes have been more the result of outside processes than the credit of government policy. But the Cabinet, euphoric over this success, has felt little pressure to move on with urgent systemic reforms, and has window-dressed flaws in the economy with the profits of economic growth. The inadequacy of its reforms can be seen in the fact that steep growth is not being felt in Budget revenues and the gap in incomes is widening. Poverty is very high and the middle class is too tiny—less than 15% of the population—making domestic demand weaker than external demand. This leads to greater economic dependence on fluctuations in global commodity markets.

To improve the situation, key priorities of public economic policy must be:

- Develop business and improve corporate governance through regulatory policy, an

independent judiciary, business infrastructure and administration.

- Draw individual incomes out of the shadows through tax reform and reforms of social security.
- Reform the blanket privileges that cost up to 50% of the country's Budget.

To ensure the effectiveness of the Government's work, a mid- and long-term vision of economic development must be worked out, the government's role in the domestic economy needs to be reconsidered, transparency and accountability in the decision-making process must be enshrined, and the opinions of independent experts need to be taken into account.

### The Rule of Law rather than the Law of the Jungle

The status of rule of law in Ukraine can best be described as unsatisfactory. Legislation is ineffective in establishing rights, not only due to the ambiguous and contradictory nature of the laws, but also due to the weakness of the judiciary and its dependence on the Executive branch.

The main reason for such shortcomings is that the legislative process is a compromise among influential interest groups who battle it out for a particular policy decision—and this is incorporated into the text of the law. Resulting laws are ineffective because of significant internal contradictions.

The absence of true political debate in the legislative process means that alternative options or approaches to policy are not considered and this does not allow the drafting of effective legislation that maximally reflects the interests of all legitimate stakeholders. The system of drafting bills of law needs to be radically re-thought and tied into the process of policy-making.

In another area of lawmaking, the obligation to harmonize Ukrainian legislation with

## Comments from our Distinguished Participants

Indicators alone don't tell the whole story in a transition economy

In assessing economic success, we should keep in mind the transitional nature of the economy. That means that indicators should not be the only criteria for assessing the economy, but also the underlying rules by which the economy is operating. In my opinion, assessing numbers makes sense only in stable economies, when it is well-known what those numbers mean for that country.

*Vitaliy Melnychuk, Deputy Chairman of the Accounting Chamber of Ukraine*

An amnesty is needed to develop a liberated policy environment

We need to declare a tax and capital amnesty for all those who may have violated the far-from-perfect economic legislation that operated in the early years of independence. As most of the tycoons from that era who today are politicians have formally broken the law, an amnesty is needed in order to create a *tabula rasa* and enable unhampered political debate. A free democracy is impossible in a situation where the

government can, at its own discretion, define who broke the law more, and who less.

*Inna Bohoslovskya, former chair of the State Committee on Regulatory Policy and Entrepreneurship*

Simultaneous integration into the CEA and the EU is impossible

The choice facing Ukraine is critical: to enter a customs union in the Common Economic Area (CEA) or to integrate into the EU. Integration in both directions is impossible.

*Oleksandr Chaliy, First Deputy Minister for International Affairs and European Integration*

Issues that need widespread debate

The obstacles in the way of Ukraine's future included corruption, the absence of press freedoms, political censorship, the lack of rule of law and a vast shadow economy. A significant part of Ukraine's elite is well aware of current problem with national progress. We need broader debate of these issues, and they need to be publicized in the media.

*Viktor Yushchenko, leader, Nasha Ukraina bloc*

European laws is being undertaken in an insane fashion: on a word-for-word basis, without any connection to the process of policy-making. Yet, in countries that are joining the EU, harmonization of legislation was only one policy component of fulfilling Accession Agreement priorities, along with institution-building, infrastructure development, training and financial support.

Technical assistance needs to be qualified

Geopolitical change has put Ukraine between two centers of influence. On one hand, the expansion of the EU and NATO to Ukraine's borders is strengthening the influence of the West and making it imperative for the country to introduce European standards of good governance and everyday democracy. On the other hand, the results of elections in Russia have confirmed that country's autocratic orientation and increased its expansionist intentions towards Ukraine. The EU would like to have a democratic and predictable neighbor, but is not supporting this with appropriate technical assistance. The pull of Ukraine into Russia's orbit is getting stronger and more consistent. Moreover, the integration

proposed by Russia requires no effort from Ukraine.

Ukraine's unstable political and social situation can be improved in two ways:

- Establish a strong top-down vertical government, such as Russia is doing, in the absence and lack of understanding of the institutional tools for democratic governance.
- Establish a government that has both vertical and horizontal links among different stakeholders, along the lines of what has developed historically in western democracies and for which the pre-conditions already exist in Ukraine.

ICPS considers it critically important that Ukraine take maximum advantage of the democratic experience of its western neighbors and to avoid and oppose autocratic trends to its East by adopting a democratic model of development.

*Nations in Transit*, a study by Freedom House, revealed that a country's democratization index correlated entirely with its status in relation to EU membership, and the approach to TA that it received. Among candidates for EU membership, EU technical

assistance was directed at preparing them for accession and was systematic. TA goals were defined as democratic institution-building and developing infrastructure for investment and business and their project outputs were very realistic: training and manuals for civil servants at all levels of government. Every local government had to develop a strategic plan for its budget and publish public policy papers on its strategic priorities.

Unfortunately, nothing like this ever happened in any EU technical assistance projects implemented in Ukraine. It is very important to get the EU to provide TA that is structured the way it was for Acceding Countries, to ensure the building of democratic institutions and a market infrastructure.

NGO networks reinforce the development of civil society

Democracy is really effective when everyday democracy exists alongside such things as multi-party elections, approval of laws in the legislature, and a Constitution. This can be seen in the ability of interest groups to develop strategies and defend their interests, and in the capacity of voters to understand government policy and to influence it.

The activities of international donor foundations played a key role in introducing the basics of democracy and establishing independent NGOs. This has prepared the groundwork for the foundations to move on to the second stage: entrenching large-scale changes through a network of public policy think-tanks.

Such a need arises from the obvious ineffectiveness of Ukraine's third sector. Unsystematic public hearings that are not tied to reform priorities do not affect policy decisions. They are not organized according to stakeholders or according to policy issues, and they are not tightly bound to reform priorities.

Pooling third sector energies and forming regional and international NGO networks should allow efforts and resources to be concentrated on introducing priority policies at the national and global levels, on rapidly absorbing information and accumulating experience in democratization, and on transferring public policy standards and know-how to other NGOs. ■

*Presentation handouts on Ukraine's top issues are available at <http://www.icps.kiev.ua/eng/library/show.html?20>*

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